

Conference on Trade Logistics Development in CAREC Region

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Azerbaijan Trade Logistics Study



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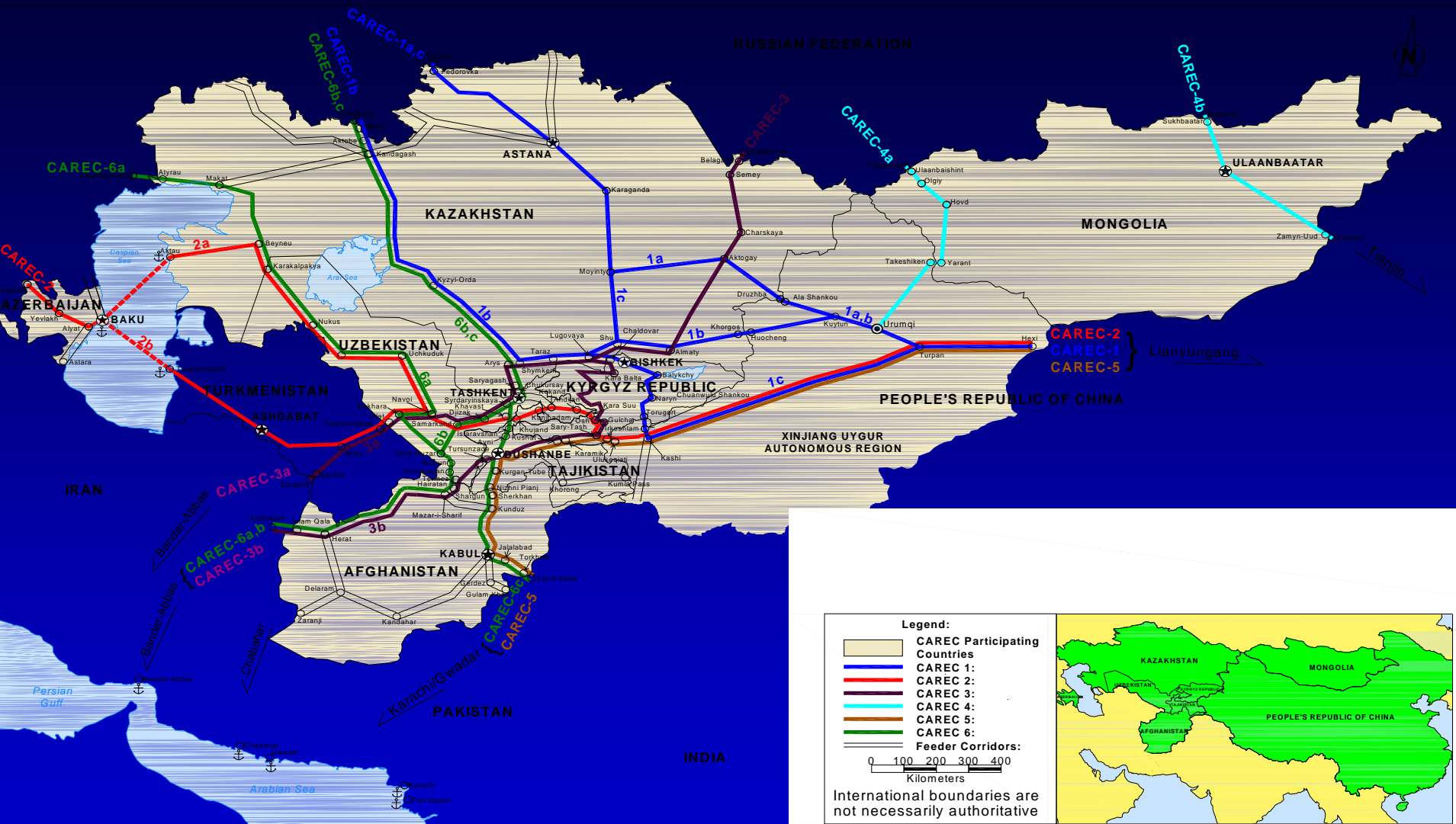
Azerbaijan

- Land area of 86,600 square kilometers
- 8.5 million residents, over twenty five million diasporas in Russia & Iran
- Linchpin of CAREC Corridor 2 & TRACECA
- Baku (Capital & largest Caspian port) is the crossroad of E-W, N-S corridors
- Closest CAREC member to open sea
- World leading GDP & export growth
- Large oil & gas reserve
- Assertive Russia a security concern

Azerbaijan



SIX CAREC CORRIDORS



CAREC CORRIDORS 2



TRACECA corridor and CAREC Corridor 2 pass through AZE

- TRACECA Corridor
- CAREC Corridor 2 (Mediterranean - East Asia)
- N-S corridor linking N. Europe, Russia and Iran (also feeder corridor to TRACECA & CAREC Corridor 2) reinforces AZE role as a key transit country



CAREC ROAD CORRIDORS DENSITY

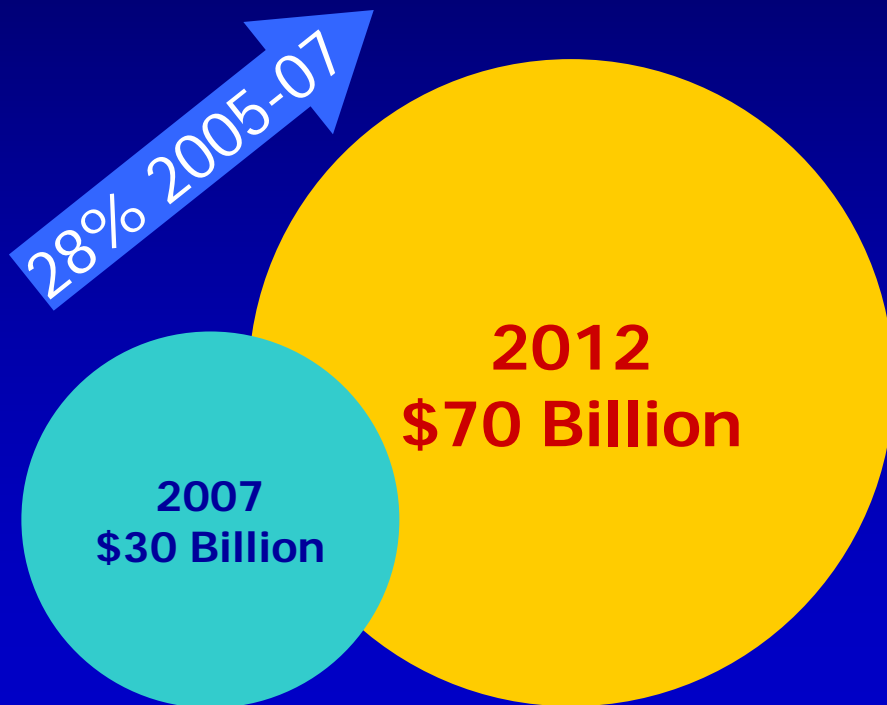


CAREC RAIL CORRIDORS DENSITY

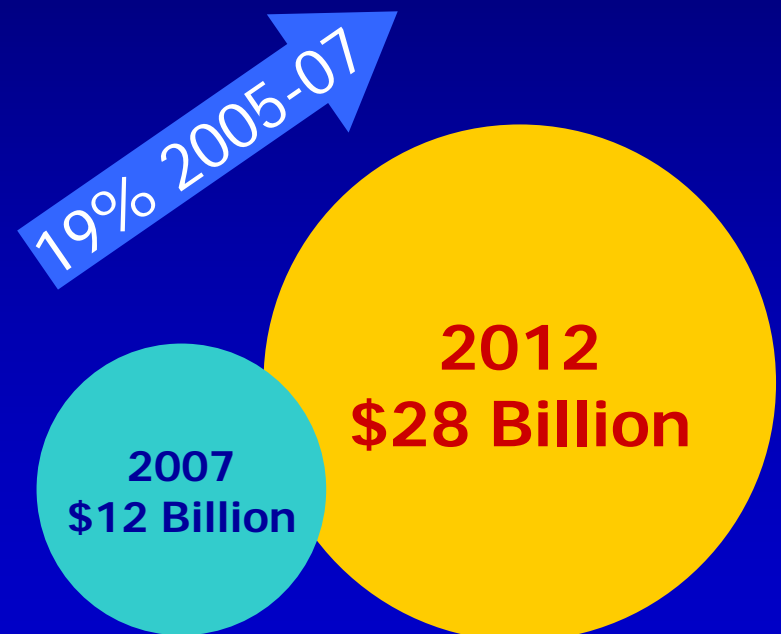


IMPRESSIVE GDP & TRADE GROWTH

Economy



Foreign Trade



Challenges for AZE

Country	Regional Program	Logistics Performance Index	
		Rank	Score
PRC	CAREC/GMS	30	3.32
THA	GMS	31	3.31
VIE	GMS	53	2.89
CAM	GMS	81	2.50
KGZ	CAREC	103	2.35
AZE	CAREC	111	2.29
LAO	GMS	117	2.25
UZB	CAREC	129	2.16
KAZ	CAREC	133	2.12
MON	CAREC	136	2.08
TAJ	CAREC	146	1.93
AFG	CAREC	150	1.21

1 = Lowest Performance 5 = Highest Performance (150 countries were surveyed.)



Azerbaijan Logistics Performance Index Scores

	Overall LPI	Customs	Infrastructure	International Shipments	Logistics Competence	Track & Trace	Domestics Logistics Cost	Timeliness
Rank	111	95	116	90	128	96	87	124
Score	2.29	2.23	2	2.5	2	2.38	2.88	2.63

Cost of export/import operations in 2006

(Source: World Bank "Doing business" database)

	Export			Import		
	No. of docs	Time (in days)	Cost (\$/cont)	No. of docs	Time (in days)	Cost (\$/cont)
Afghanistan	7	66	2500	11	88	2100
Azerbaijan	7	69	2275	18	79	2575
Kazakhstan	14	93	2780	18	87	2880
Kyrgyzstan	18	127	3032
Tajikistan	14	72	4300	10	44	3550
Uzbekistan	10	44	2550	18	139	3970
EU-25 average	5	12	940	7	15	999
United States	6	9	625	5	9	625
Singapore	5	6	382	6	3	333
World average	7	28	1192	10	34	1408

Infrastructure Challenges

Institutional Challenges

Capacity Development Challenges

Competing Routes Challenges



Infrastructure Challenges

- Rail equipments and tracks old and obsolete, among the worst in CAREC
- Lack of multimodal terminals, poor and ancient equipments
- Large sections of highway are crumbling

OLD DILAPIDATED RAIL WAGONS



OLD HIGH SIDE WAGON WITH FOUR ANCIENT 5-TON CONTAINERS



OLD RAIL WAGON LEANING TO THE LEFT



OLD SOVIET CRANES AT GANJA MULTIMODAL TERMINAL



TRACKS REQUIRE BALLAST & SLEEPERS REPLACEMENTS



BAD SECTION OF M2 HIGHWAY YEVLAKH TO GANJA



TRUCK SWERVE INTO ONCOMING TRAFFIC TO AVOID POTHOLES



Institutional Challenges

- Complexity of law & regulations
- Short or no notice of changes
- Difficulties in dealing with customs
- High customs brokerage fees
- Monopolies, favored companies
- Immature financial sector

Capacity Development Challenges

- Insufficient logistics & supply chain management professionals
- Lack of university or professional logistics training courses
- Weak faculty
- Absence of certification program

Competing Routes Challenges

- **Trans Siberian** (Vostochny)
- **Trans Manchurian** (Manzhouli)
- **Trans Mongolian** (Zamyn Uud)
- **Trans Kazakhstan** (Alashankou + Horgas)
- **Emerging routes** (via India, Iran, Turkey)

Georgia/Russian conflict creates uncertainty to TRACECA and CAREC Corridor 2

Opportunities

- **Aviation** (AZE is not landlocked in aviation)
- **Free Economic Zone**
- **Logistics hub**
- **Multimodal Transportation**
- **Oil equipment**
- **Petrochemical**
- **Agriculture**

Aviation

- Baku Airport is well situated to serve a wide territory (including AFG, Iraq)
- Baku is on intercontinental flight paths (Cargolux just added new flights to China & SE Asia via Baku)
- AZAL, Silk Way are strong national carriers
- Baku Cargo Terminal is a world class facility
- Abundant supply of aviation fuel from refineries
- Well trained support personnel

Free Economic Zones

- Trade
- Manufacture
- Processing
- Equipment repair & rebuild (turbines)
- Wholesale warehouses & showrooms
- Retail & distribution
- Value added logistics services

Logistics Hub

- Azerbaijan lies at the boundary of Asia and Europe
- Gateway to European & Asian Production Networks
- Crossroad of N-S, E-W corridors
- Long history as a trade & transportation center

Multimodal Transportation

- ➔ Centralized Location, gateway to TKM, W. KAZ, N. Iran, Russia
- ➔ Strong air sector with service to Iraq, AFG
- ➔ Sea-rail, sea-pipeline movement of KAZ, TKM, UZB oil to world markets
- ➔ Improving rail and road sector
- ➔ Standard gauge rail link with Turkey will create competitive advantage



Oil Equipment

- Expertise and experience as supplier to former Soviet oil industry
- Large home & regional market (e.g. KAZ, TKM) that is growing

Petrochemicals

- Large in-country & regional feedstock supply
- Large home and regional market for petrochemicals
- Cost advantages

Agriculture

- Varied climate zone (subtropical to temperate)
- Fertile soil
- Good water supply
- Abundant labor pool
- Excellent quality fruit and vegetables
- Good distribution network in Russian market

Key Recommendations

- **Adopt comprehensive transport infrastructure planning**
- **Develop special economic zones, multimodal facilities, logistics centers**
- **Simplify customs laws and regulations. Improve transparency of rules and regulations. Promote harmonization of border procedures. Reduce regulatory burden on trade.**
- **Develop industries that will sustain AZE's economy for future years (trade, logistics, aviation, oil equipment, petrochemical and agriculture)**
- **Encourage private sector participation, especially SME**
- **Secure foreign investments with technology transfers**
- **Compile logistics performance indicators to assess the success of government policies, laws and regulations**
- **Build a standard gauge rail link with Turkey**

Standard Gauge E-W Railway

- Part of \$1.5 billion rehabilitation plan (use savings from elimination of electrification, sale or abandonment of branch lines & high speed passenger rail)
- Build new E-W standard gauge track parallel to broad gauge track
- Assist Georgia in constructing standard gauge track to Kars (as part of KTB RR)
- Switch majority of E-W freight traffic to standard gauge track upon completion of Kars connection

Reasons for Standard Gauge Recommendation

- Faster services and lower operating cost
- Seamless integration with European Network (Iranian Network when Iran completes rail link to Astara)
- Laying the foundation of a future China-Europe standard gauge network
- Creates competitive advantage
- Standard gauge is the world standard
 - Large body of technical & management knowledge
 - Large number of equipment & parts suppliers
 - Lower equipment & parts cost

Thank you!

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ADB